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THE WHITE HOUSE

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MEMORANDUM FOR ADMINISTRATION SPOKESMEN

FROM: TOM GIBSON *TG*.

SUBJECT: Talkings Points on Trade Policy

Attached, for your information and use, are talking points on the President's trade policy. These materials discuss recent Administration actions to promote fair trade; the Reagan Administration's concerns about H.R. 4800, the House Omnibus Trade bill; and the dangers of protectionism.

If you have any questions concerning the attached, please contact the Office of Public Affairs at (202) 456-7170.

Thanks very much.

WHITE HOUSE TALKING POINTS

- o H.R. 4800 is not a fair trade bill, but a less trade bill; it is not tough, but is defensive and defeatist.
- o H.R. 4800 would severely damage the U.S. economy, destroy American jobs, reduce our international trade competitiveness, and embroil us in trade conflicts with virtually all our major trading partners.

Free and Fair Trade

I believe that if trade is not fair for all, then trade is free in name only. I will not stand by and watch American businesses fail because of unfair trading practices abroad. I will not stand by and watch American workers lose their jobs because other nations do not play by the rules.

-- Ronald Reagan
September 23, 1985

- o The President's dedication to free trade is reinforced by a determination to identify and address cases of unfair trading practices against U.S. producers.
- o The Reagan Administration's record in attacking unfair trade practices is impressive. Over the past nine months, the Administration has taken nearly two dozen actions to allow American goods and services to compete on an equal footing with foreign competitors.
- o Examples of U.S. goods and services which stand to benefit from Reagan Administration trade policy actions:
 - pharmaceuticals and medical equipment;
 - computers, electronic equipment, and computer chips;
 - agricultural products -- wheat and other grains, citrus products, tobacco;
 - automobiles and auto parts;
 - insurance;
 - leather and leather footwear;
 - lumber and other forest products; and
 - intellectual property rights in all sectors.
- o The Administration's trade watchword: Open foreign markets, not close ours.

The freer the flow of world trade, the stronger the tides of human progress and peace among nations.

--- Ronald Reagan
September 23, 1985

May 23, 1986

WHITE HOUSE TALKING POINTS

REAGAN ADMINISTRATION TRADE POLICY

Executive Summary

- o The United States is the greatest trading nation in the world. We export \$200 billion in goods and services each year; 5 million American jobs are dependent upon exports. America has more at stake in maintaining a healthy international trading system than any other country.
- o We are dealing with the basic causes of our trade deficit. Since February 1985, for example, the Japanese yen and the West German mark have risen more than 60 percent against the dollar. The yen recently reached its highest level against the dollar since World War II.
 - Currency realignments normally take a year or 18 months to show substantial effects on trade flows. Already, U.S. firms are seeing improvements in their export sales.
 - By late 1986, the effects will become more visible; substantial improvements in the overall U.S. trade balance should occur in 1987.
- o In addition, the LDC debt problem is being addressed, providing expanded markets for U.S. exports; arrangements for closer economic cooperation are in place, fostering improved world economic growth and greater exchange rate stability.
- o The task ahead is to sustain this progress -- not discard these gains by giving in to protectionism.

House Omnibus Trade Bill

- o If enacted into law, H.R. 4800, the House Omnibus Trade bill, would be a serious step backward for U.S. international trade policy.
- o The big losers under the House bill:
 - Consumers who would pay higher prices on thousands of products;
 - Workers in many of the most dynamic U.S. industries, who would find overseas markets closed to them; and
 - Farmers who would face additional financial hardships.

May 23, 1986

WHITE HOUSE TALKING POINTS

REAGAN ADMINISTRATION TRADE POLICY ACTIONS

- o There can be no free trade unless there is fair trade. The President's dedication to free trade is reinforced by a determination to identify and address cases of unfair trading practices against U.S. producers.
- o President Reagan's record in attacking unfair trade practices is impressive. Over the past nine months, the Administration has taken nearly two dozen actions to allow American goods and services to compete on an equal footing with foreign competitors.
- o Our actions are aimed at opening foreign markets, not closing ours. Examples of U.S. goods and services which stand to benefit from Reagan Administration actions:
 - pharmaceuticals and medical equipment;
 - computers, electronic equipment and computer chips;
 - agricultural products -- wheat and other grains, citrus products, tobacco;
 - automobiles and auto parts;
 - insurance;
 - leather and leather footwear;
 - lumber and other forest products; and
 - intellectual property rights in all sectors.

Actions Against Unfair Trade Practices

- o Since September 1985, the Reagan Administration has taken several steps aimed at addressing unfair foreign trade practices. A brief summary:
- o September 7, 1985: The Administration took the unprecedented step of self-initiating three unfair trade practice cases (Section 301) concerning:
 - U.S. informatics sales in Brazil;
 - U.S. insurance operations in Korea; and
 - U.S. tobacco sales in Japan.
- o October 16, 1985: Self-initiated an additional unfair trade case against Korean intellectual property right restrictions, and secured market-opening concessions from Taiwan on tobacco, wine and beer, in response to the U.S. threat of a trade case.
- o November 1, 1985: Retaliated against the EC's failure to negotiate a settlement to the long-standing GATT citrus dispute by imposing duties on EC pasta exports.
- o December 6, 1985: For the first time, self-initiated an antidumping case against on 256K RAM semiconductor chips.

WHITE HOUSE TALKING POINTS

(Trade Policy Actions, continued)

- o December 1985: Achieved negotiated settlements of two long-standing disputes with Japan on leather and the EC on canned fruit as the result of the imposition of Presidential deadlines.
- o March 31, 1986: The President initiated the first case ever under Section 307 of the Trade and Tariff Act of 1984 against Taiwan's automotive performance requirements. The President also ordered a fact-finding inquiry to determine whether the European Community's meat inspection programs would unfairly penalize American exports of up to \$125 million worth of meat.
- o May 15, 1986: Defended U.S. agricultural trade rights by imposing restrictions on EC agricultural exports to the United States in response to new EC restrictions.
- o May 20, 1986: Ordered U.S. trade negotiators to open talks with Japan, Taiwan, West Germany, and Switzerland to seek voluntary export restraint pacts on machine tool imports.

Ongoing Trade Initiatives

- o The Tokyo Economic Summit adopted new arrangements for closer economic policy coordination by the major industrial democracies. These arrangements should lead to improved growth, smaller trade imbalances and greater stability in international exchange rates. The Summit partners also endorsed the early launch of a new round of multilateral trade negotiations, targeting the September GATT Ministerial meeting for decisive progress.
- o In 1985, the Reagan Administration successfully conducted intensive Market-Opening Sector-Specific (MOSS) negotiations with Japan in four sectors: telecommunications; medical equipment and pharmaceuticals; electronics; and forest products. Talks in 1986 will focus on additional sectors, including auto parts.
- o The Administration introduced legislation to improve intellectual property protection; follow-up activities include international consultations and vigorous use of U.S. trade laws against offenders.
- o This Administration is countering foreign subsidized agricultural exports by concluding over \$400 million worth of sales under the Export Enhancement Program.
- o The Reagan Administration has introduced "War Chest" legislation and is aggressively using existing authorities to counter foreign subsidized export financing. For the first time, the Export-Import Bank has extended concessionary financing to a U.S. firm facing subsidized foreign competition for a sale in the U.S. market.

May 23, 1986

WHITE HOUSE TALKING POINTS

HOUSE OMNIBUS TRADE BILL

- o The United States is dealing effectively with the basic causes of its trade deficit. For example:
 - Substantial exchange rate changes have occurred, improving the competitive position of American producers.
 - The LDC debt problem is being addressed, providing expanded markets for U.S. exports.
 - Arrangements for closer economic policy coordination are in place, fostering improved global growth and greater exchange rate stability.
- o If enacted into law, H.R. 4800, the House Omnibus Trade bill, would be a serious step backward for U.S. international trade policy.
- o Many provisions of the bill would undercut the President's recent success in Tokyo of obtaining endorsements from our major trading partners to begin a new round of trade-liberalization talks.
- o H.R. 4800 would severely damage the U.S. economy, destroy American jobs, reduce our international trade competitiveness, and embroil us in trade conflicts with virtually all our major trading partners.
- o The big losers under the House bill:
 - Consumers who would pay higher prices on thousands of products;
 - Workers in many of the most dynamic U.S. industries, who would find overseas markets closed to them; and
 - Farmers, who would face additional financial hardships.
- o As nine members of the President's Cabinet asked in a joint letter to the Congress, "Why should we jeopardize the livelihood of the five million Americans whose jobs depend on exports?"

Examples of Unsupportable Provisions of H.R. 4800

- o H.R. 4800 would require mandatory quotas against exports from countries with large and persistent trade surpluses vis-a-vis the United States. Japan, Taiwan, and West Germany would likely be subject to this provision. This violates GATT and invites massive trade retaliation against U.S. exports, particularly agricultural commodities, aircraft, chemicals and data processing equipment.

WHITE HOUSE TALKING POINTS

(House Omnibus Trade Bill, continued)

- o H.R. 4800 would unilaterally redefine what is an illegal subsidy, making some subsidies countervailable even if they are available generally. This provision would invite retaliation against U.S. timber exporters, for example, who receive subsidized electricity.
- o The bill would make denial of "internationally-recognized worker rights" an unfair practice actionable under Section 301. This standard would come back to haunt U.S. exporters -- in right-to-work states, for example. Moreover, the concept of "internationally-recognized worker rights" is ambiguous at best -- a Pandora's box.
- o The bill would require mandatory Presidential retaliation in certain Section 301 cases by an inflexible deadline. Legalism in place of negotiation is no way to conduct U.S. foreign and trade policy.
- o H.R. 4800 would prohibit the President from authorizing tariff cuts for certain import-sensitive articles. This would make it hard to get many nations to the bargaining table in a new GATT round; could make some mandated U.S. negotiating objectives impossible to achieve.
- o H.R. 4800 would require a 40 percent reduction in items under national security export controls -- a meat-axe approach to export decontrol that ignores national security.
- o The bill would also establish a Council on Industrial Competitiveness to carry out industrial planning -- a discredited scheme that would pit one industry against another. Americans don't want it and don't need it.
- o H.R. 4800 could add to the budget deficit. Preliminary analysis indicates that H.R. 4800 would cost taxpayers an additional \$5.4 billion over the next three years.

Building Blocks of a Bipartisan Trade Bill

- o There are a number of important changes to U.S. trade law that would improve America's ability to compete. Supportable provisions of the H.R. 4800 include:
 - Expanding protection for U.S. intellectual property rights; and
 - Providing the President with negotiating authority for a new round of multilateral trade negotiations.

WHITE HOUSE TALKING POINTS

(House Omnibus Trade Bill, continued)

- o The Administration supports a number of changes in existing law, which are not presently included in H.R. 4800:
 - Amending U.S. antitrust laws to promote competitiveness of U.S. industries;
 - Amending the antidumping and countervailing duty law to provide a predictable pricing test covering non-market economies; and
 - Amending our trade laws to put a deadline on dispute settlement and to contain a fast-track procedure for perishable agricultural items.

May 23, 1986

WHITE HOUSE TALKING POINTS

PROTECTIONISM IS DESTRUCTIONISM

- o Protectionism hurts Americans more than it hurts the foreigners it is aimed at. President Reagan says, "They ought to call it destructionism."
- o During the past three years, the U.S. has experienced record trade deficits, yet our unemployment rate has fallen by about a third and 10 million more Americans have become employed.
- o Europe, on the other hand, which has many protectionist trade restrictions, has experienced economic stagnation for more than a decade. Total employment in Western Europe is virtually the same today as it was 10 years ago; since the labor force grew over the same period, unemployment has increased.
- o Protection does not affect total employment. It simply shifts employment from more efficient industries to less efficient industries. Net effect: lower productivity; lower national income.
- o Protectionism forces a massive transfer of wealth from ordinary Americans to the special interests. The cost of protectionism falls most heavily upon low-income Americans, because of higher prices on basic consumer goods.

Lessons of History Clear

- o The 1930 Smoot-Hawley Act raised duties on nearly 900 items, from champagne and dolls to hand tools and farm products, pushing America's tariffs to their highest levels in the 20th century.
- o Over 1000 economists signed a petition urging Congress not to pass Smoot-Hawley, and asking President Herbert Hoover not to sign it. A total of 59 countries protested to the U.S. Government about the danger Smoot-Hawley posed to the world economy, then reeling from the effects of the 1929 stock market crash.
- o Within months of enactment of Smoot-Hawley, our key trading partners began raising their tariffs and establishing exchange controls.
 - U.S. merchandise imports fell from \$4.5 billion in 1929 to \$1.3 billion in 1932, the lowest level since 1908.
 - U.S. merchandise exports fell nearly 60 percent from 1929 to 1932.

WHITE HOUSE TALKING POINTS

(Protectionism is Destructionism, continued)

- o Liberal and conservative historians agree that Smoot-Hawley deepened the Great Depression by encouraging other countries to erect trade barriers; isolating America's economy behind a high-tariff wall; and undermining European war debt repayment efforts.

Selected Quotations on Protectionism

Protectionist moves basically profit special interests at the expense of the consumer and at the risk of retaliation -- costing Americans their jobs.

--- Ronald Reagan
Remarks to the International
Forum, U.S. Chamber of Commerce
April 23, 1986

This philosophy of the free market -- the wider economic choice for men and nations -- is as old as freedom itself. It is not a partisan philosophy.

--- John F. Kennedy
Message to Congress on
Foreign Trade Policy
January 25, 1962

This is the first [shareholders] meeting where we can report things have never looked better... The Japanese have already added \$1000 to their sticker prices and I expect they'll be adding \$1000 in the next six months. That awful advantage we've been complaining about is gone and we think it's a great time to sell cars.

--- Lee Iacocca
New York Post, May 15, 1986

Protectionism is no solution to the economic problems we face. A highly industrialized country like the United States would suffer greatly if the doors to international commerce were closed.

--- Senator Walter Mondale
Congressional Record
December 13, 1974